

THE RISE OF LUXURY MARKET IN INDIA: FROM MYTH TO REALITY

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ABSTRACT

Indian Government has approved 51% FDI in Multi-Brand Retail and 100% in Single Brand Retail. India is undergoing an important revolution in the area of luxury brands. The impact of the luxury brands is extending from tier-I to tier-II cities. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail. India would have more than double the number ofHNIs to 403,000 by 2015 from 153,000 in 2010. CII-IMRB report, 2013 'The Changing Face of luxury in India' gives an overview of the luxury market today – that has witnessed robust growth of 15% over the last 3 years and is estimated to have reached \$7.58 billion in 2012. Among the prominent international brands present in the India market through franchisee or joint venture route include Gucci, Versace, Armani, Zegna, Marks & Spencer and Zara. This conceptual paper contends that the past myth of luxury retailing has turned into a sheer reality in the contemporary India. The growth of India as a high end luxury products market and its potential is evident and there is a positive outlook towards worldwide brands. The paper determines myth and reality of the luxury retail market. The paper analyses marketing mix in context of luxury market in India. The factors responsible for growth and the latent threat factors in the growing luxury market are also studied. It also takes a close look at the rapid luxury retail sector growth in line with the augmenting list of HNIs in Indian Economy.

KEYWORDS: HNI (High Net-Worth Individual), India, Luxury Brands, Retail Sector, Socio, Cultural Values

INTRODUCTION

Memory Lane

India has been no stranger to branded luxury. The shopping lists of Indian royalty are still remembered long after princely titles have been reduced to mere courtesy. In 1926, for instance, the Maharaja of Patiala gave iconic jewellery house Cartier its largest commission to date the remodeling of his crown jewels, which included the 234.69 carat De Beers diamond. The result was the Patiala necklace weighing 962.25 carats with 2,930 diamonds. In 1928, the Maharaja of Jammu & Kashmir placed 30 orders in six months for trunks from luggage-maker Louis Vuitton, including one for a shoe maintenance kit. In the 1930s, 20% of Rolls Royce's global sales were from India. These might be stray indulgences, but they highlight the extreme contrast that followed. For close to 66 years after Independence from the British, anything remotely opulent was frowned upon as India flaunted with socialism. But in the past decade, the onset of liberalization and capitalism has enabled India's new maharajas, industrialists, entrepreneurs, professionals and the rural rich to transparently desired all things luxurious.

NECESSITY OF LUXURY: BHARAT TO INDIA

India has always had a rich tradition of luxury. Addressed as the Golden Bird, India has experienced Maharajas and Nawabs who had refined tastes and were connoisseurs of luxury. Describing luxury as "balance, harmony and beauty

of human race," French ambassador to India Jerome Bonna font told in the 2008 luxury summit, "because of lavish Indian weddings, media advertisements, maharajas and Bollywood stars, I feel the art of luxury is alive in India. With the democratization of luxury in the 1990s (Kapferer and Bastien, 2009) which broke out with the conglomeration of luxury initiated by Bernard Arnault, the construct of several luxury houses has changed to more organized corporate firms and their reach has crossed borders.

The luxury market in India is gaining increasing visibility with each passing year. While the discourse generated by this sector is disproportionately high compared to the size of the market today, it does indicate that most global luxury brands recognize the potential of the Indian luxury market. With the high growth rates of the Indian market compared to the counterparts and even the mature economies, it is only likely that interest in the Indian luxury market will increase in the days ahead. Although today, the traditional wealthy are more dominant. But 10 years hence, we will see that the growth in the number of high net worth individuals will come from young professionals as well as the first-generation entrepreneurs, who will be key consumers of luxury brands. The luxury market in India experienced robust growth of 20% over the past year and is estimated to have reached USD 5.75 billion in 2010. Luxury products have led the way in the market, growing much faster than projections.

Services have also performed well, with most categories exceeding expectations. Luxury assets like cars have continued on their strong growth path, surpassing forecasts for the fourth year in a row. However, the overall growth rate in assets was hampered by a slowdown in luxury real estate. Of particular interest to note is the growth rates enjoyed by market leaders - high double digits led by a combination of same store sales and footprint expansion. Luxury has gone beyond Delhi, Mumbai and Bangalore to Chennai, Hyderabad and Pune, which collectively now have over 30 stores in apparel, accessories, watches and personal care. Similarly North Mumbai and Gurgaon are two new distinct catchments that have emerged.

The luxury market in India is interestingly poised today. While several challenges exist, luxury players are now shifting focus from fighting against these constraints to innovating within their confines. In this environment, luxury players are moving forward with a mix of hope and caution. A handful of players that have taken bold, market making moves are beginning to reap early rewards. While there are no easy "silver bullet" solutions, we see a few emerging themes on how to grow and operate profitably in the Indian luxury market. The two key factors we see that have not helped luxury brands realize the potential of the market is firstly the extent of investments made by luxury brands both in terms of creating the environment and in terms of the investments they have made in awareness creation and secondly getting the right products that address the market with the right price points.

CURRENT STATE OF THE LITERATURE

Michel Chevalier, Michel Gutsatz (2012) in his book "Luxury Retail Management: How the World's Top Brands Provide Quality Product and Service Support" explains that Luxury Retail Management is our gold-plated ticket to the glamorous world of luxury retail. Jonas Hoffmann, Ivan Coste-Maniere (2011) in a book titled "Luxury Strategy in Action" discusses the meaning of luxury and the sorts of customers that buy luxury have continually been evolving, but never as dramatically as in the past 20 years. This book provides an insight into luxury management through a strategic approach, analyzing the impact of online social networks and the role of emerging markets. Robin Lent, Genevieve Tour (2009) in the book "Selling Luxury: Connect with Affluent Customers, Create Unique Experiences through Impeccable Service, and Close the Sale" praised for Selling Luxury. Their book gives fundamentals in selling and building customer loyalty.

Selling Luxury is filled with ways of exceeding each client's expectations through offering a service that surprises and delights. Jean-Noel Kapferer, Vincent Bastien (2009) in the book "The luxury strategy: break the rules of marketing to build luxury brands" highlights that luxury is in fashion. The Luxury Strategy unveils how in any market, including B to B, a company can learn from luxury strategies to differentiate itself profitably. Michel Chevalier, Gerald Mazzalovo (2008) in their book "Luxury Brand Management: A World of Privilege" elaborates a fascinating and comprehensive examination of the different dimensions of luxury management in various sectors.

This is a powerful book for marketers, advertisers and brand managers in understanding the workings of the luxury market- how it is designed, defined and divined. Uche Okonkwo (2007) has authored the book "Luxury Fashion Branding: Trends, Tactics, Techniques" and analysed that "Luxury is a necessity that begins where necessity ends." Luxury fashion has seeped into every sphere of our consumer society. It has become the norm to aspire towards attaining the appetizing goods of brands.

RESEARCH METHOD

To study myth and reality in regard to luxury market in India, this paper depends upon primary and secondary reports such as publications from MOSPI, Ministry of Commerce (GOI), The Changing Face of luxury in India 2013 (CII-IMRB report), India Luxury Review 2011(CII-AT Kearney Report), World Development Indicators Database 2012, World Wealth Report 2013 (Capgemini and RBC Wealth Management). Through these reports, the concerned data was collected, analyzed and interpreted to find out proper results in the term of myth and reality. These data were supported by the recent developments and trends which were published in the form of news paper articles, reports, interviews of CEOs, luxury conferences and summits. For this conceptual paper on luxury, Financial Express, The Business Line, The Economic Times have proved to be of great help. The data collected from the sources were evaluated and following analysis were performed for testing its accuracy and finding out the inferences for further suggestions and recommendations.

CONNOTATION AND SIGNIFICANCE OF THIS PAPER

In the era when the majority of economies across the globe are facing financial crisis, multitude of the once successful industries are troubled by recession, there exists an industry which has experienced no sluggishness in sales due to the economic slowdown. This industry is the luxury retail sector. It is still focusing to tap the massive potential in emerging market of India with a special reference to metropolitan cities. The changing needs, tastes and attitudes of people of India combined with increasing income and rapid urbanization has created an attractive and potential market for luxury Products. To tap this huge potential MNC brands are entering the market while there are some well-established domestic players as well. In this situation any company that wants to enter and establish this market has to face an immense competition from both existing and other newly entering players.

OBJECTIVES OF THIS PAPER

This study covers the following objectives:

- To determine myth and reality of the luxury retail market.
- To study the marketing mix in context of luxury market in India.

- To study the factors responsible for development and growth in luxury sector.
- To examine the latent threat factors in the growing luxury market.
- To analyse the developments in the multi-dimensional luxury and lifestyle retailing in India.

THE REFORMS THAT MATTER: GET READY INDIA

Since independence in 1947, life expectancy at birth has more than doubled, to 66 years from 32, and per-capita income has grown fivefold. In recent decades, reforms pushed up the country's once sluggish growth rate to around 8% per year, before it fell back a couple of percentage points over the last two years. For years, India's economic growth rate ranked second among the world's large economies, after China. (Sen, 2013). After almost three years of slowing economic growth and elevated inflation, we are now seeing early signs of a reversal in the stagflation-type environment. Most high frequency indicators are signalling a bottoming out in growth which we expect to extend into a gradual recovery trend from quarter ending March 2013. More importantly, the improving productivity dynamic will finally help correct the macro stability indicators such as inflation and trade deficit (Ahya, 2013).

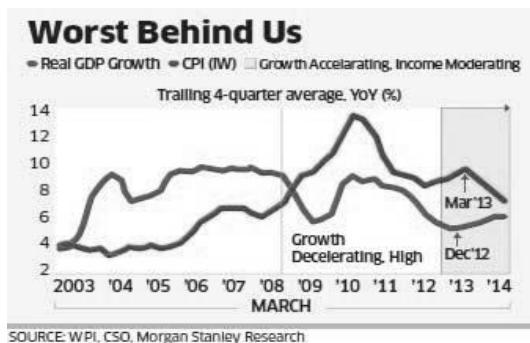


Figure 1

India's economic confidence grew by 8 points to 68 per cent in the month of January 2013 as compared to December 2012, making it the second most economically confident country in the world, according to a survey titled 'Ipsos Economic Pulse of the World'. India's services sector has emerged as a prominent sector in terms of its contribution to national and state incomes, a comparison of the services performance done across the top 15 countries over the 11 year period from 2001 to 2011. India stood first in terms of increase in share of services in the gross domestic product (GDP) with 8.1 per cent, among top 15 countries during 2001-2011.

India is also expected to be the second largest manufacturing country globally in the next five years, followed by Brazil as the third ranked country, according to Deloitte. The GDP growth is expected to increase further to 6.7 per cent in 2014-15, according to the World Bank's latest India Development Update, a bi-annual report on the Indian economy. While, the Prime Minister's Economic Advisory Panel expects the economic growth rate to increase to 6.4 per cent in 2013-14 from 5 per cent during 2012-13, on back of improvement in performance of agriculture and manufacturing sectors (*Ministry of Finance, Press Information Bureau (PIB)*).

The Indian economy is estimated to grow at a higher rate of 6.7 per cent in 2013-14 due to revival in consumption, according to a report by CRISIL. "India is growing very rapidly in our portfolio," said Mr Fred Hochberg, Chief, US Exim Bank, while highlighting India's strong long-term growth prospects.

DISCUSSIONS: BUSINESS OF BRANDS

In 2012, millionaires in Asia outnumbered their counterparts in North America for the first time. According to the World Wealth Report 2013 released by consultancy Capgemini and RBC Wealth Management. The Asia-Pacific region has 3.68 million high net worth individuals (HNIs), compared to 3.73 million in North America. Asia surpassed Europe in 2010. India recorded a marginal decline, but that was largely because of notional losses in the exchange rate and a stock market slump. The new feature of the growth in the number of HNIs and the spread of luxury wares is that they are no longer restricted to the metros. It is difficult to get a handle on the number of rich in rural areas. Agricultural income is tax-free in India, and there are no reliable records of rich farmers. There is anecdotal evidence; however, that small-town luxury spending is shooting up. While the economic slowdown has impacted automobile sales, the luxury car segment has managed to retain its momentum, growing at a compound annual growth rate (CAGR) of 30% to 40% from 2008 to 2012. Now I am trying to furnish an outlook relating to development of luxury marketing in India through different news items.

India's market for luxury boats and yachts has grown by around 10% in the last three years - incidentally, a period signified by the slowest economic growth in decades - as cash-rich real estate developers from Hyderabad, jewellery chain owners from Kerala, businessmen from Chennai and miners from Bengaluru look for a slice of good life that was previously a reserve of the moneybags of Mumbai (ET, June 8, 2013).

Mall developers in India are setting aside up to 40% space for luxury brands, hoping to tap new money by offering labels such as Jimmy Choo, Canali and Gucci alongside mass-market products. According to a recent survey by YES Bank, new pockets of regional growth have led to a rise in the number of first-time luxury consumers from smaller cities and towns. This made 36% of the 300 responding CEOs of luxury brands see themselves increasingly using social media platforms as a brand connect and 38% saying they were trying to reach out to these markets through e-commerce. So the potential is big. And so is the challenge of wooing these new luxury lovers. Abraham Koshy, professor of marketing at IIM-Ahmedabad, says small-town consumers need to be treated differently. "There is no point explaining what it means to buy a Louis Vuitton bag to a well-heeled shopper in Delhi or Mumbai. But in smaller locations, it is important to stimulate demand by informing a consumer about the badge value of an expensive brand and how it adds to the image," he says. To communicate well, brands need to talk consumers' language (ET, March 21, 2013).

Quaint carpet designs from rural India may soon find a global market with the opening up of retail sector to foreign direct investment. Commerce and Textiles Minister Anand Sharma listed out the benefits of FDI in retail to a largely rural audience. (PTI, Nov 7, 2012). With luxury companies setting up base in India, there is a growing demand for managers armed with specialized management degrees in luxury. Looking at the growth in career opportunities in luxury, leading business schools which offer management courses in luxury brand management — such as ESSEC in Paris and SDA Bocconi in Milan — are witnessing an increase in demand from markets like India.

LUXURY ANALYSIS THROUGH CHARTS AND DATA

Merely saying that this market is a rising star is incomplete without the diagrammatic representation. So, in order to support the statement we need to discuss few graphs and tables. The charts explicitly explain how the total luxury market in India is expanding. India is not a matured market for Luxury Retail Market, so the luxury penetration is not very high. Although, the estimates predicted by the A.T. Kearney are optimistic. Calculations say that the demand for luxury goods is catalytic in nature with the rising GDP. As the consumers are turning brand conscious and High Net worth

Individuals, the latent demand will be converted as a result. Since it gives people a sense of accomplishment, they are accepting and adopting the luxury much faster than what has always been estimated.

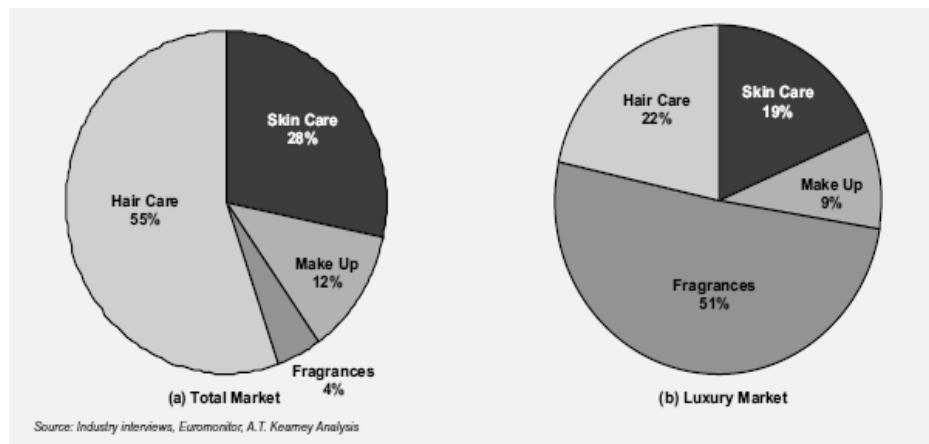


Chart 1

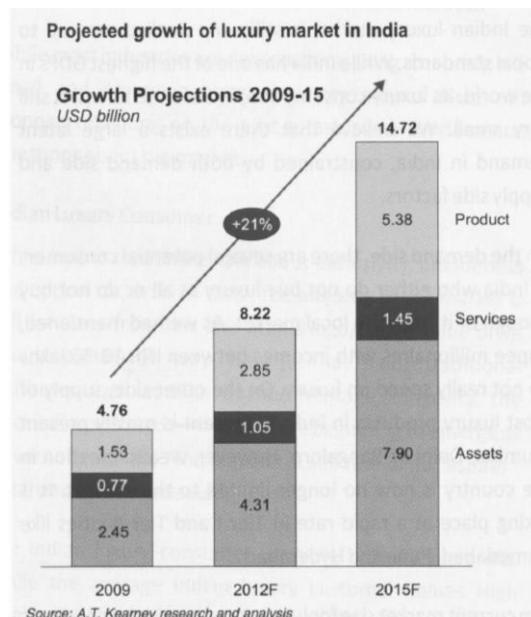


Chart 2

Luxury Personal Care Market in India, South East Asia and China (USD Mn)

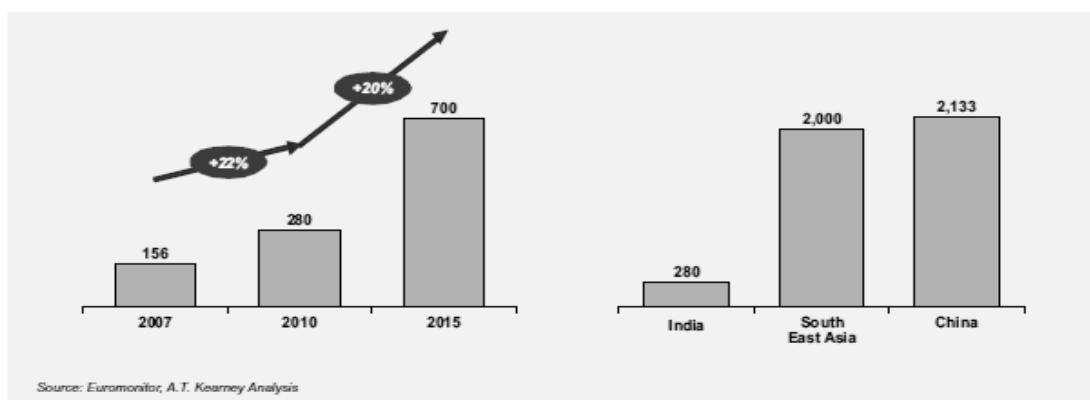


Chart 3

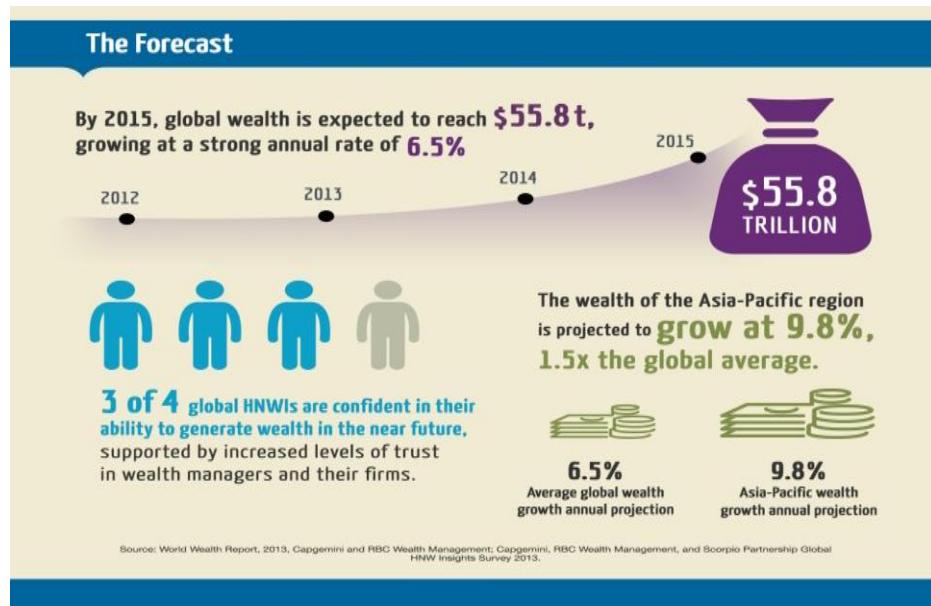


Chart 4

IMPLICATIONS AND LIMITATIONS: GOOD, BAD AND THE BEAUTIFUL

At a luxury conference organized by business daily Mint, Joydeep Bhattacharya, head, and Sandeep Lodha, principal, of Bain & Company's consumer products and retail practice in India, presented a report, titled "Small Ain't Beautiful — Point of View on India Luxury Market." According to the report, India's traditional luxury market — which includes personal luxury goods such as watches, jewellery, apparel, accessories, fragrances and cosmetics as well as non-personal items such hotels, cars, boats, yachts, furniture and fine dining — is valued at about USD 6 billion and growing at 15% to 20% a year. Of this, the personal luxury goods segment is valued at USD 1.5 billion.

The primary driver for such growth has been a 200% increase in the number ofHNIs since 2006. The report also estimates there will be 1.1 million households with an annual disposable income over USD 100,000 in 2013, a 60% increase since 2006. Consequently, luxury brands are responding by increasing awareness with innovative marketing campaigns and events. For instance, Judith Leiber decided to tap into India's burgeoning bourgeois even in Tier-2 cities with an exclusive trunk show in Indore. The luxury handbag brand, which typically sells about 300 bags in India a year, sold 30 pieces ranging from USD 500 to over USD 6,000 in one event.

Early in February, the Chinese government banned all ads of luxury products. Beijing believes these ads induce "hedonism, lavishness and aristocratic living". Cut to India, three weeks later. The Manmohan Singh government declared war on luxury products. And the definition is so wide that virtually everything fits. The Indian luxury market is already like an iceberg because the tax structure is so irrational (Srinivas, 2013).

Limitations and Constraints of Luxury Marketing: Availability of high quality real estate at the right prices continues to be the key concern for growth. With five star hotels losing their sheen as 'preferred' luxury destinations, and high streets still to emerge as a credible alternative, players are jostling for space in premium malls. Limited new supply on the mall front, with players in the lifestyle segment vying for quality real estate as well, continues to be a challenge for most luxury players. In some cases new duties and age restrictions have been introduced, which are likely to have negative impact on the luxury market. Most luxury brands want a 100% subsidiary also means greater psychological commitment

from the brand, which leads to greater awareness and understanding of the unique issues on the ground and a much greater desire to work towards changing them, all of which will be welcome consequences. Perhaps due to the above factors and partly due to alternative growth opportunities in China and South East Asia, the market still remains supply constrained. Expansion is still slow, Mumbai and Delhi still the hub of action and store footprints and product distribution is still low. On the whole, however, challenges exist and are not likely to be resolved easily in the near future.

CONCLUSIONS AND FURTHER RESEARCH

After the entire discourse regarding the trends, arrival and the re-birth of the luxury sector in India, I leave it to the readers to estimate the future of this sector. It is pointless to say that the concept is new to India- the empire once called Golden Bird. This nation has a history of history as far as the “Luxury” is concerned. For India this tale is not novel, although it may be the era to redefine the luxury, may be the consumption pattern is in the transition phase or may be the consumers have been globalized. Even when the US withdrew the demand in 2009, the Indian demand for luxury turned blind eye towards the recession and outperformed the counterparts. People here don't spend in expensive brands until they see a fruitful and long term investment attached to it. Although those who make extravaganza for tags, are investing in the goodwill and products are status symbol to them to yield future returns. 70% of Indians even today are residing in rural section; they have purchasing power, willing to spend to prove themselves elite. Luxury to them is buying kilograms of silver and gold and owning acres of land. Now they need to be explained why to spend on a Cartier watch, a Louis Vuitton handbag or a Hermes scarf to flaunt their success.

At this juncture, consumption pattern and consumer behaviour is different from western countries. Ours is an emerging economy, citizens are saving oriented, HNIs are mushrooming high and the trade policies are relaxed. The entire scenario is transforming today, citizens are migrating for the urban life and the rural parts are also industrialized. Hardly any single luxury product is appreciated from Kashmir to Kanyakumari. What is launched successfully in Delhi may not be that hit in Bengal and vice-versa. The consumption behaviour of a highly salaried CEO is no doubt the different from a thousand acres landlord in India, even if the purchasing power and the wealth is the same.

Consumers initiate buying these goods when they have higher income and growing profits. They multiply the use of the brands; impel their reference group towards the same. Even the so called western socializing and the mouth publicity play the crucial role. But when the things go wrong, profits turn into losses or income is slashed, they make every effort to maintain the status by paying the same bills or even higher. Afterall, no company has the luxury to picturize the genuine degrading reputation in the market, even if they are sinking. Once these unique brands are made a part of the life, it's easy to get addicted and difficult to do without it.

The “sky is the limit” for this segment to discuss upon. The topic has a vast future in India to expand and research upon. This research article is leaving lots of room for those trying to dive in the sea of luxury. The history of Indian luxury, definition of luxury, consumer buying behaviour, financial aspect of the sector and digital media hyping this section are few areas open for further research. Even the good, bad and the beautiful aspect of this market can be studied in Indian aspect. The industry is optimistic from Indian perspective and in search of sunshine.

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